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The Retail Food Industry Center

Advancing Knowledge About Processing,
Distribution, Sales, and Food Service

TRFIC NEWSLETTER

University of Minnesota
Vol. 3 No. 2 Summer 1997

FROM THE DIRECTOR

Any University Center is, by its nature, a learning center and a teaching center. The enthusiasm and dedication of our faculty, staff, and students who seek knowledge and who assemble and teach what they have learned make TRFIC work. This learning happens by visiting companies; attending trade shows and meetings; reading publications; analyzing data on food consumption, wages, and firm performance; and attending conferences where colleagues from around the world discuss their research. At least 14 University of Minnesota faculty are actively learning and teaching about the retail food industry.

One example of these activities is my participation at a conference in Montpellier, France, titled "Grande Distribution Alimentaire" which roughly translates to Global Food Distribution. The paper I presented at this conference reviewed academic literature on the retail food industry (it will be available after the conference proceedings are printed). More importantly, the interaction with scholars and leaders in the food industry taught me that the globalization of retail food stores and food distribution has arrived.

Changes in food distribution are on the same path in both Europe and North America. Large discount superstores are competing with traditional retail grocers. Traditional grocers are consolidating, modernizing, and integrating vertically to gain efficiencies in inventory management and delivery schedules and to gain control of product quality. This has generated considerable fear among small farmers and processors. The French hope to sustain small producers on the premise that only small producers will provide the high quality food so revered by the French and by tourists. The Italians seem quicker to accept vertical integration, but are still concerned about quality and regional identity of indigenous foods. The Dutch and British are probably ahead of

the U.S. in developing integrated distribution systems. Balancing the need for efficiently produced, low-cost food with preferences for good tasting, high quality, and convenient (though more costly) food is a global struggle today.

For other examples of our learning and teaching activities, note articles below about conferences in Minnesota and Italy, a site visit in England, the food marketing short course, and Jay Coggin's work with the National Research Council.

AWARD FOR OUR LIBRARIAN

Louise Letnes recently received the Distinguished Staff Award from the College of Agricultural, Food and Environmental Sciences at the University of Minnesota. Louise is the librarian for the Waite Library in the Department of Applied Economics. When TRFIC was established, she volunteered to expand the already extensive collection on food and agriculture with a section on the retail food industry. The library now has many trade journals, books, directories, and reference materials that faculty, students, and industry personnel use. Louise regularly searches new publications and sends, via E-mail, abstracts of key articles to all TRFIC researchers. Besides building a great reference library, Louise is a national leader in the electronic posting of staff and working papers on the World Wide Web.



SHORT COURSE ON FOOD MARKETING

"Going for Gold: How to Build Winning Food Marketing and Sales Strategies" will be held on October 21-22 at University of Minnesota. The Retail Food Industry Center is working with R-TECH Laboratories, a business unit of Land O'Lakes, Inc., to repeat this popular short course. Topics on the program include: *Preparing to Market a Food Product*, *Determining the Best Price*, *Finding the Right Channels for your Product*, and *Building Sales with Merchandising*. For more information, call Mavis Sievert at 612-625-7019.

TWO TRFIC SEMINARS IN NOVEMBER

Whitney MacMillan (former Chairman and CEO of Cargill) will discuss current issues in the rapidly changing food industry at the Earle Brown Center (St. Paul Campus) from 2:00 to 3:30 p.m. on Tuesday, November 4. Willard R. Bishop, Jr. (President of Willard Bishop Consulting, Ltd.) will speak on "What's Happening in Food Retailing: The Lessons Being Learned" at the Classroom Office Building Room 119 from 2:00 to 3:30 p.m. on Tuesday, November 18. He plans to discuss several topics including: the accelerating life cycle of retail formats and the expanding definition of food. Invitations to the seminars will be mailed soon. A reception will follow both programs.

The TRFIC public seminar series offered two programs last April. Ron Pedersen, Chairman and CEO of Marketing Specialists Sales Company, spoke on changes in the food brokerage business and Marty Kahn, President of Shoppers Express, talked about the development of home shopping delivery systems.

HIGHLIGHTS OF WORKING PAPERS

97-02 *Food Processing Firms and Foreign Production Incentives* by James Hagen

Food manufacturing executives were asked which assets are nontransferable through market channels. Product management expertise, process management knowledge, and reputation appear to be the most important intangible assets associated with foreign production. A regression on the determinants of foreign production in two food product categories yielded results consistent with the interviews.

97-03 *Shelf Labeling of Organic Foods: Effects on Customer Perceptions and Sales* by Marla Reicks, Patricia Splett, and Amy Fishman

Experiments on organic shelf signage were conducted in ten stores. Sales for 14 organic food items were compared between test and control stores and shoppers were surveyed. Volume increases for some items were associated with the shelf labels. Signage increased the proportion of customers who said they plan to buy organic foods in the future. Differences in sales gains and in sign recognition between supermarket chains underscore the interactions between the store environment, its customers, and the shelf labels.

97-04 *Information Technology and Fresh Produce: A Case Study Using Store Level Scan Data to Analyze Sales* by David Eastwood

Complications have hampered the adoption of Universal Product Codes (UPCs) for fresh produce until recently. A case study on carrots demonstrates how scanning data analyses can show the effects of new items on the sales of established products and on the consumer's willingness to pay for the new items.

97-05 *New Competition for Supermarkets: A Case Study* by Oral Capps, Jr.

Non-traditional retailers such as warehouse club stores, discount drug stores, and discount mass merchandisers are new competitors for traditional supermarkets. The impact of Wal-Mart on the sales of a conventional retail grocery outlet located in a non-urban area is analyzed. In this case, Wal-Mart was responsible for a sales reduction of about 17 percent in the conventional supermarket stores.

AVAILABILITY OF WORKING PAPERS

As soon as Working Papers are printed, they can be ordered for \$22.50 per copy. Ninety days after Working Papers are printed, they will be available on our Web Site [<http://rhetoric.agri.umn.edu/~trfic/>] and can be downloaded in pdf (Acrobat) format and printed at no cost. To obtain an order blank for all working papers or to be notified when new ones are published, contact Mavis Sievert at 612-625-7019.

GLOBAL LEARNING IN ITALY

Professors Jean Kinsey and Ben Senauer presented a paper on Efficient Consumer Response and its Implications for the U.S. Food System at an International Conference on "Vertical Relationships and Coordination in the Food System" in Piacenza, Italy, on June 12 and 13. They discussed industry issues with researchers and food industry people from many European countries and the U.S. and visited several Italian supermarkets. The trips were jointly sponsored by TRFIC and the Center for International Food and Agricultural Policy.

BRITISH FOOD RETAILING AND MARKS AND SPENCER

While in Europe, Jean Kinsey and Ben Senauer learned more about food retailing in Great Britain. The British system has several very strong retailers, many relatively small suppliers, and a great reliance on private-label products, referred to as own-brand products. The largest British retailers, such as Sainsbury, Tesco, and Marks and Spencer, are actively expanding overseas, including in the U.S.

They spent a full day visiting with Marks and Spencer personnel and touring stores and suppliers. Marks and Spencer has about 285 stores in the United Kingdom and over 600 locations worldwide. Food accounts for 39 percent of their sales and virtually all products are sold under the St. Michael's brand, their own private label. While Marks and Spencer does no manufacturing, the company has very close relationships with their independent suppliers. Marks and Spencer develops products, sets standards, and closely monitors quality control. Currently, the chain has a major emphasis on premium-quality, chilled (refrigerated) prepared foods. Marks and Spencer has gross and net profit margins which are far greater than U.S. food retailers. However, the firm's returns on equity and assets are in line with U.S. companies.

Jean and Ben also met Professor David Hughes, holder of the Sainsbury Chair of Agribusiness and Marketing, in Wye College at the University of London. They discussed similarities and differences between the British and U.S. food retailing systems. U.K. retailers probably have closer relationships with their suppliers than their U.S. counterparts.

NEW BOOK ON PROCESSED FOODS

Global Markets for Processed Foods: Theoretical and Practical Issues, edited by Daniel Pick, Dennis Henderson, Jean Kinsey, and Ian Sheldon, will be available soon. This book is the result of a conference cosponsored by The Retail Food Industry Center and the International Agricultural Research Trade Consortium and held one year ago in Minneapolis. It covers many aspects of food and agricultural trade theory, policy, and practice. For more information about this book and how to obtain a copy, call Mavis Sievert at 612-625-2744.

INTERDISCIPLINARY ANALYSIS OF INNOVATIONS

Dr. Jay Coggins (Department of Applied Economics) is working with experts on the Chemicals, Metal Processing, Steel, Textiles and Apparel, Trucking, Pharmaceuticals, Semiconductor Manufacturing, Disc Drives, Computers, Aerospace, and Financial Services industries to outline the primary innovations in these fields and to investigate how R & D processes have changed since 1980. Many of the participants are from Sloan-sponsored industry centers. This new study group is under the auspices of the Board on Science, Technology, and Economic Policy (STEP), the National Research Council, the National Academy of Sciences, and the National Academy of Engineering. The goal is to provide insight into how Federal dollars can be judiciously used to enhance U.S. competitiveness. The group will publish a book on their findings.

NEW STEERING COMMITTEE MEMBER

Dean R. Krause, Vice President of Finance for the Kuehn-Prewitt-Rufer Company, a food brokerage, has joined the TRFIC Steering Committee. His knowledge of food retailing finance and operations will be a key asset for our Center. Welcome Dean!

DID YOU KNOW?

The average American's lunch hour is 29 minutes. Only 12 percent say they get at least an hour for lunch while 54 percent take less than a half hour. The National Restaurant Association survey also found that 39 percent do not take a real lunch break.

DID YOU KNOW?

Food product recalls in 1996 jumped to 252 from 215 in 1995. This was below the 261 recalls noted by the Food Industry Report during 1994, but above 1993 and 1992 levels. Over 40 percent of the recalls in 1996 dealt with omissions in ingredient labeling.

More supermarket chains are headquartered in California (165) and Michigan (113) than in other states. According to the *Directory of Supermarket, Grocery & Convenience Store Chains '97*, 67 of the 1,962 U.S. supermarket chains are based in Minnesota (tied for 8th among states). More convenience store chains are headquartered in Texas (189) and North Carolina (110) than in other states. Minnesota ranks 24th with 27 of the 1,657 U.S. convenience store chains.

Food Stores accounted for 17.5 percent of total retail trade in 1995 and Eating and Drinking Places had 10 percent. Based on 1995 Census sales estimates, U.S. retail trade totaled \$2.341 trillion.

The combined retail grocery sales of Wal-Mart, Wal-Mart Supercenter, and Sam's Warehouse Club Stores are estimated at over \$17 billion, ranking Wal-Mart third among U.S. supermarket and grocery chains.

Nonfood sales in supermarkets totaled \$45.2 billion in 1996, the same as in 1995. IRI Infoscan data show that unit volume fell by 2 percent in 1996.

In 1997, 82.2 percent of supermarkets plan to offer prepared foods according to a FMI survey.

For the first time, more meals purchased at restaurants were eaten off-premises than on-premises. In 1996, according to NPD, the average person ate 65 restaurant meals off-premises and 63 on-premises.

When asked why they carryout dinners, 29 percent said "Pressed for Time," 27 percent said "No Energy/Fatigue," and 16 percent said "Want Home Cooking," according to a National Restaurant Association survey

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